

Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 AID-05 CIAE-00 EB-07 FRB-01

INR-07 NSAE-00 TRSE-00 XMB-04 OPIC-06 SP-02 CIEP-02

LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01 L-02

H-02 PA-02 PRS-01 USIA-15 /110 W

----- 119768

R 041727Z APR 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 9895

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL BELFAST

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

UNCLAS SECTION 01 OF 02 LONDON 05122

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING APRIL 4

BEGIN SUMMARY: THE THREE WORKING DAYS WHICH FOLLOWED A
LONG HOLIDAY WEEKEND BROUGHT LITTLE ENCOURAGING NEWS ON
THE ECONOMIC FRONT. ELECTRICITY WORKERS SUCCESSFULLY
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NEGOTIATED A 31 PERCENT WAGE INCREASE DESPITE STRONG

GOVERNMENTAL WARNINGS ON EXCESSIVE PAY DEMANDS. THIS ADDED TO SPECULATION THAT PUBLIC SECTOR WAGE CONTRACTS STILL TO BE NEGOTIATED WOULD MOST LIKELY BE IN THE 30 PERCENT RANGE. THE POUND, WHICH STRENGTHENED OVER THE PAST TWO WEEKS, BEGAN TO SHOW SIGNS OF WEAKENING. OFFICIAL RESERVES INCREASED BY \$53 MILLION IN MARCH AS A RESULT OF CONTINUED PUBLIC SECTOR BORROWING, A BUILD-UP OF FOREIGN CURRENCY RESERVES AND AN INCREASED INFLOW OF FUNDS. END

1. WAGE INCREASES. IN SPITE OF WARNINGS BY PRIME MINISTER WILSON, CHANCELLOR HEALEY AND OTHER SENIOR GOVERNMENTAL OFFICIALS ON THE DANGERS OF "EXCESSIVE WAGE DEMANDS", IT APPEARS THAT 106,000 ELECTRICITY SUPPLY MANUAL WORKERS HAVE ATTAINED AN AVERAGE WAGE INCREASE OF 31 PERCENT. THIS GIVES FURTHER IMPETUS TO SPECULATION THAT THE THREE RAILWAY UNIONS WHICH ARE CURRENTLY ENGAGED IN CONTRACT NEGOTIATIONS AND HAVE ALREADY TURNED DOWN A 20 PERCENT PAY OFFER, WILL NOT SETTLE FOR LESS THAN A 30 PERCENT INCREASE FOR THEIR MEMBERS.

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2. OFFICIAL RESERVES. UK OFFICIAL RESERVES INCREASED BY \$53 MILLION IN MARCH AFTER NET ACCRUALS OF FOREIGN CURRENCY BORROWINGS BY THE PUBLIC SECTOR UNDER THE EXCHANGE COVER SCHEME TOTALING \$39 MILLION. TOTAL PUBLIC SECTOR BORROWINGS AMOUNTED TO \$46 MILLION, BUT THERE WAS A REPAYMENT OF SOME \$7 MILLION, THE FIRST SINCE THE OFFICIAL COVER FOR FOREIGN CURRENCY BORROWING WAS INTRODUCED IN MARCH 1973. THE FIGURES INDICATE THAT DURING MARCH THERE WAS A SUBSTANTIAL INFLOW OF FUNDS INTO THE UK POSSIBLY AS THE RESULT OF QUARTERLY PAYMENTS TO OIL PRODUCERS. PRESS REPORTS SUGGEST THAT DUE TO THE WEAKNESS OF THE DOLLAR DURING THE MONTH, THE BANK OF ENGLAND INTERVENED TO PREVENT AN UNDUE RISE IN STERLING AND IN TURN, ADDED ADDITIONAL FOREIGN CURRENCY TO THE OFFICIAL RESERVE BALANCE. AT THE END OF THE MONTH, OFFICIAL RESERVES STOOD AT \$7,117 MILLION (CONVERTED AT THE CLOSING MARKET RATE ON MARCH 27 OF 1 POUND EQUALS \$2.4026).

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H-02 PA-02 PRS-01 USIA-15 /110 W

----- 118563

R 041727Z APR 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 9896

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

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3. FOREIGN EXCHANGE AND GOLD:

	3/26	4/3	CHANGE
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EXCHANGE RATE	\$2.4130	\$2.4035	DOWN \$0.0095
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EFFECTIVE DEPRECIATION

(PERCENT)	21.1	21.3	DOWN 0.2
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GOLD	\$177.50	\$176.00	DOWN \$1.50
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4. FORWARD DISCOUNT ON STERLING:

	3/26	4/3	CHANGE
1 MONTH	0.95	0.85	DOWN 0.10
3 MONTHS	3.07	2.75	DOWN 0.32
6 MONTHS	6.05	5.74	DOWN 0.31

(ALL FIGURES IN CENTS)

5. EURODOLLAR INTEREST RATES:

	3/26	4/3	CHANGE
1 MONTH	6-5/8	6-1/4	DOWN 3/8
3 MONTHS	7-3/8	7-3/8	UNCHANGED
6 MONTHS	7-7/8	7-3/4	DOWN 1/8

6. LOCAL AUTHORITY DEPOSIT RATES:

	3/26	4/3	CHANGE
1 MONTH	10-1/4	9-13/16	DOWN 7/16
3 MONTHS	10-1/2	10	DOWN 1/2
6 MONTHS	10-3/4	10-1/4	DOWN 1/2

7. THE BANK OF ENGLAND MINIMUM LENDING RATE REMAINED UN-
CHANGED AT 10 PERCENT ON FRIDAY, APRIL 4, 1975.

RICHARDSON

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05 JUL 2006

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TAGS: ECON, UK
To: STATE
Type: TE
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